Eurotunnel on Track

Shareholder letter **October 2005**

A non stop summer

The holiday period may be over for some, but here at Eurotunnel we have not stopped, even for a moment. Throughout July and August the company has been making strides in the implementation of cost reduction and margin improving initiatives and, as is normal in our business sector at this time of year, our operating teams have redoubled their efforts to welcome and transport an ever increasing number of customers.

Two examples of this are: on 20 August, we carried 10,187 cars and on 3 September 10,303 cars, the equivalent of twice the volume on an average day.

During this summer, Eurotunnel has also successfully launched the first phase of the plan which will match the capacity of the transport system to variations in demand from passenger shuttle customers. This new effort is in addition to the projects put in place over the past few months targeting a reduction in operating costs.

On 16 August, we took back direct control of EurotunnelPlus, our account management brand used for distribution in freight markets across Europe, for all except our largest customers. This decision, which has led to the set up of a network of wholly owned subsidiaries across the continent and to the signing of new partners in Germany and Italy, will bring the commercial activity of EurotunnelPlus back in-house. It gives us the opportunity to bring an even better quality of service to our customers across the whole of Europe and will, I am sure, enable us to gain the maximum competitive advantage in this sector.

On 17 August, Eurotunnel welcomed a new Chief Operating Officer, Jean-Pierre Trotignon, whose experience in the fields of transport, logistics and the operation of public service concessions will be a valuable addition to the management of the company.

The vast project to restructure Eurotunnel is reaching its final phase. On 31 August, the number of employees who had registered an interest in a voluntary redundancy package had reached almost 800, divided equally between France and the UK. As a result, the initial objectives of Project DARE have largely been achieved. This is a major step toward securing the future for Eurotunnel.

The Group will nevertheless continue to provide the highest standards of reliability and service quality and neither the decrease in the staffing levels, nor the cost reductions will be allowed to impact on the levels of safety and performance attained.

Our interim results, which you will find on the following pages, and which, due to the application of the new IFRS standards have taken a considerable amount of work to prepare, are encouraging. The operating margin is growing; the net loss has been substantially reduced.

The negotiations with the creditors are continuing at a good pace. As planned, we presented them with our business plan in advance of the 30 June deadline and our initial reflections on the debt restructuring on 13 July. The “due diligence” has been carried out during August and contacts with the three creditor committees have continued throughout the period – a sign of a common desire to succeed. It remains our intention to make a statement concerning the evolution of the discussions before the end of October but until then the talks must remain confidential.

The outlook for the second half of 2005 is good. The Board is confident in the ability of the company and its management to continue the improvement in operating performance. Project DARE is starting to bear its first fruits; there will be even more in 2006. The financial negotiations are ongoing.

I believe that we are now off to a good start.

Jacques Gounon
Chairman and Chief Executive

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Interim Results

Shuttle services revenue up by 6%

Operating costs reduced by 3%

Net loss reduced by 18%

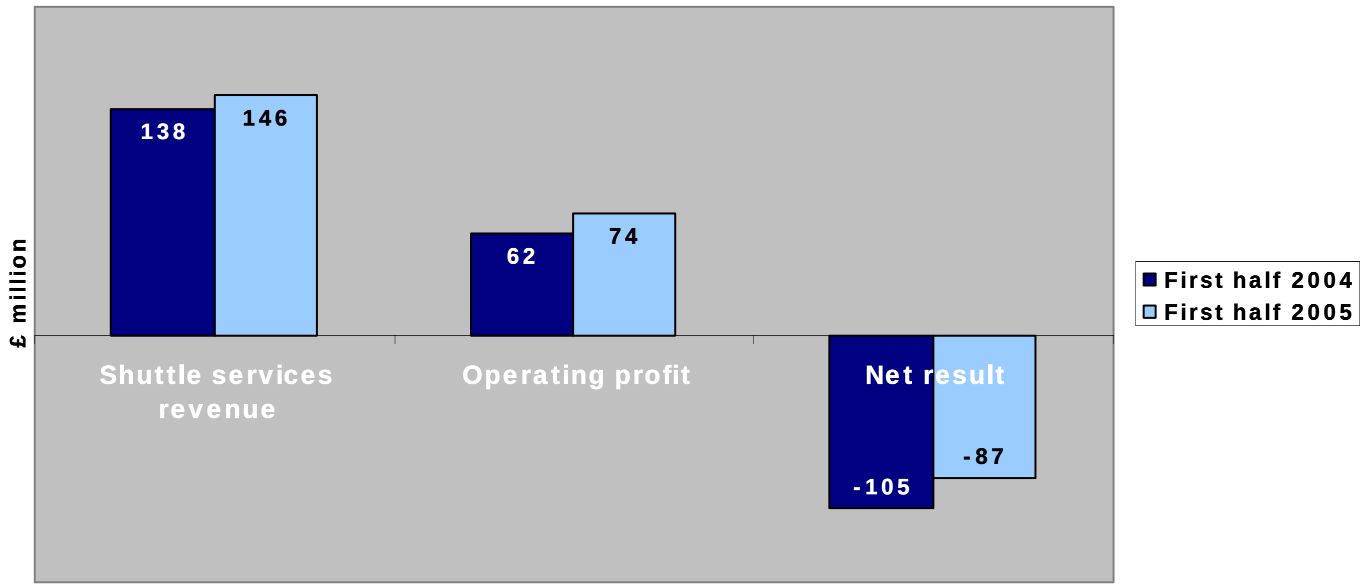
In the next 4 pages, Eurotunnel presents the interim results in detail. You will note the improvement. Revenue increased by 2% between January and June 2005. Furthermore, shuttle services revenue, the company's core business, is up by 6% (£146m). This shows a turnaround in trend which must now be maintained. It is true to say the difficulties suffered by the port of Calais created a favourable climate for Eurotunnel. But the first half of the year also allowed Eurotunnel to highlight its assets (ease, speed, reliability) and demonstrate the rationale of the new commercial strategy. The operating results have already improved, and this has been achieved before a reorganisation of the company. The operating margin grew by 7%, mainly as a result of a committed cost reduction programme, showing a fall in costs of 3%. Consequently, the operating profit has increased significantly: + 19% (£74m) compared to the first half of 2004. The financial results have also progressed. Between January and June, the net loss reduced to £87m (-18%).

Operating revenue

Shuttle services revenues were up 6% to £146m mainly due to higher truck shuttle volumes and yields. Railways revenue remained stable at £117m and remains protected until the end of November 2006 by payments under the provisions of the Minimum Usage Charge (MUC) in the Railway Usage Contract, which amounted to £36m in the first half of 2005. Non-transport activities revenues amounted to £5m during the period, down £4m compared to the same period in 2004, partly as a result of a reduction in land sales. Operating revenue for the first half of 2005 was £268m, an improvement of 2% compared to the first half of 2004 at constant exchange rates.

Operating profit

Operating costs reduced by 3% compared to the same period in 2004, due to reductions in staff costs, marketing and advertising and insurance premiums and despite marked increases in electricity and maintenance costs. The full benefit of the cost reductions arising from the DARE project is not expected before the first half of 2006. The cost of security to the Group was approximately £5 million. Depreciation charges and provisions have reduced by £6m compared to the same period in 2004, mainly due to the impairment charge made at the end of 2004. Non-trading charges amounted to £11m in the first half of 2005, an increase of £3m compared to the same period in 2004, and related to external costs associated with refinancing and to costs relating to the termination of certain contracts. Operating profit improved by £12 million (19%) to £74 million for the period due to increased revenues (£5 million), reduced operating costs (£4 million) and reduced depreciation and provision charges (£6 million) despite the increase in non-trading charges (£3 million).



* The Eurotunnel Group's full interim report and accounts are available on www.eurotunnel.com or by request to the Shareholder Information Centre: 08457 697397.

Jacques Gounon, Group Chairman and Chief Executive, said:

"Eurotunnel has accelerated improvements in its operational performance. Increased revenue in our core shuttle business has been achieved within the framework of a new marketing strategy based on our key benefits: ease, speed, and reliability.

"We expect to consolidate the 3% reduction in operating costs in the second half. This will be achieved by more closely aligning capacity with demand, and by further reductions in staff costs as the first voluntary redundancies take effect.

"I would like to acknowledge the hard work and commitment of our staff and the sense of responsibility shown by the unions, all of whom are taking on this phase of reconstruction with the firm intention of saving Eurotunnel.

"In accordance with our timetable for the planned financial restructuring, we presented a business plan to our creditors in advance of the 30 June deadline, and our initial reflections on the debt restructuring on 13 July.

Net result

Net interest charges, including other financial income and charges, were £161m for the first half of 2005, a decrease of 4% compared to the same period in 2004. Hedging charges included within net interest charges significantly offset the benefit of lower interest rates. The net loss improved by £18m to £87m for 2005.

Cash flow

Net cash flow from trading for the first half of 2005 was £140 million, compared to £124 million for the same period in 2004. This £16 million increase compared to the same period in 2004 is in part due to an improved operating margin, and in part to a reduction in working capital.
Net cash flow from investing activities decreased significantly to £3 million due to reduced expenditure and to cash generated by sales of property. Net cash flow after investing activities amounted to £137 million in the first half of 2005, an increase of £29 million compared to the same period in 2004.
Cover of contractual interest after investing activities was 97% for the first half of 2005.

£ million	**30 June 2005**	**30 June 2004**
Exchange rate €/£	1.483	1.491
Net cash flow from trading	**140**	**124**
Net cash flow from investing activities	(3)	(16)
Net cash flow after investing activities	**137**	**108**

[1] Cash flow before non trading cash flows, taxation and financing activities.

Main effects of the introduction of IFRS accounting standards

Explanations of the changes in accounting standards and their effects on Eurotunnel's financial statements are included in the full interim combined accounts*.
Below are the main impacts on Eurotunnel's combined accounts:

- **Opening issued capital and reserves attributable to equity as at 1 January 2004:**

Derivative instruments relating to interest rate hedging on loans have been valued at their fair value: this has reduced issued capital and reserves attributable to equity by £174m.

Accounting for debt at an effective rate of interest has increased issued capital and reserves attributable to equity by £117m.

The effect of accounting for retirement liabilities is to reduce issued capital and reserves attributable to equity by £18m.

- **The net effect on the income statement for the year to 31 December 2004 is to increase the loss by £35 million.**
- **Treatment of Fixed Assets:**

In the absence of definitive interpretations from IFRIC relating to concessions, the French GAAP accounting principles relating to fixed assets have been maintained.

- **Treatment of part of the debt:**

The consolidation of the special purpose vehicles FLF and TJDH would increase issued capital and reserves attributable to equity by £175m and decrease the Junior Debt by the same amount. As this benefit could only be realised after the complete reimbursement of the FLF and TJDH debt, Eurotunnel, with the prospect of a significant restructuring, has not consolidated these entities.

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Financing

At 30 June 2005 Eurotunnel's nominal debt totalled £6.1 billion. Eurotunnel's funding falls into three main components – Core Debt, a Buffer Zone, and issued capital and reserves attributable to equity.
The Core Debt totalling £4.8 billion comprises £0.4 billion of Senior and 4th Tranche Debt, £3.2 billion of Junior Debt, £0.7 billion of FLF2 debt (Tier 1A), and £0.5 billion of Resettable Advances.
The Buffer Zone of £1.3 billion includes £0.4 billion drawings under the Stabilisation Facility.

The Stabilisation Advances carry 0% interest until December 2005. In order to convert the Stabilisation Advances and Notes into Units in accordance with the provisions of the 1998 restructuring, Eurotunnel has the possibility to propose to its shareholders to vote on the conversion before the end of 2005. This zone also includes £0.9 billion of Participating Loan Notes which carry 1% fixed interest until 2006.
No debt repayments under the Credit Agreements are due before mid-2006. In the absence of any significant modification to the debt covenants, total debt repayments over the period 2006 to 2009 would total approximately £267 million, starting with £4 million in 2006, increasing to £159 million in 2009.
The third component of the financing structure is represented by issued capital and reserves attributable to equity, which at 30 June 2005 totalled £0.5 billion under IFRS (as described in note 2 of the combined interim accounts).

Financial situation

The two main elements of the Group's strategy are:
- the implementation of project DARE, both for the truck and passenger services, and for the cost reductions, and
- the negotiations with creditors in accordance within the framework of the waiver obtained in order to renegotiate the Credit Agreements.

Continued implementation of project DARE

Eurotunnel has continued to implement the DARE project launched in 2004. From January 2005 the new truck strategy was introduced and in June, the new car pricing policy was launched. Agreements have been reached with UK and French staff representatives on negotiated voluntary departures.

Forecast cash position

The financial consequences of the forecasts updated in the light of the latest results and the current outlook for the Group including the consequences of project DARE, are as follows:

- During 2005 the cash flow position remains protected by the mechanism by which interest that cannot be paid in cash can be settled by way of Stabilisation Advances up to a limit of £60 million. Taking into account either financial or operational risks, especially those associated with the implementation of DARE, the cash flow position remains subject to a number of uncertainties. On the basis of the latest operating forecasts available, the amount of unused Stabilisation Advances should provide sufficient cash to the end of 2005, at which time the level of available cash is projected to be equal to the Permitted Float of £25 million (this is the maximum amount of cash that may be held by the Group as defined in the Credit Agreements).
- In 2006 the Group will no longer benefit from the Stabilisation Advances, rendering the cash flow position more vulnerable particularly at the end of July and October 2006 because of the interest payments due under the current Credit Agreements. Furthermore, Railways revenue will no longer be protected after November 2006; payments under the provisions of the Minimum Usage Charge (MUC) in the Railway Usage Contract for the first 11 months of 2006 will have an estimated effect on cash flow amounting to approximately £65 million.
- From the first half of 2007 Eurotunnel will not be able to meet its contractual debt repayments.
- The cash flow forecasts are based on assumptions that the Group considers to be both reasonable and realistic. The conversion of the Stabilisation Advances and Notes existing at 30 June 2005 would reduce annual interest charges by approximately £24 million from January 2006, based on current interest rates. Furthermore, significant disruptions to the operations of the Group or events that are unforeseeable or unquantifiable at the date of the accounts (for example relating to on-going disputes) could accelerate the date at which the Group would be unable to meet its financial obligations.

New accounting standards

With effect from 1 January 2005, Eurotunnel is required to apply International Financial Reporting Standards (IFRS) when preparing its accounts. The accounting principles now being applied by Eurotunnel, and certain departures from full compliance with IFRS, are described in note 2 to the interim combined accounts*, and the impact of new accounting principles is illustrated in note 8. For the half year ended 30 June 2005, Eurotunnel is applying the recommendation of the CNC 2004-R02 dated 27 October 2004 for the presentational format for the combined income statement and cash flow: this presentation may differ to reflect standards in force at the time of preparing the financial statements for the year ending 31 December 2005.
The comparative figures for 30 June 2004 in the table and text under financial highlights relating to the analysis of the result have been restated to reflect the adoption of the new accounting principles, and are also recalculated using the exchange rate applicable for the preparation of the 2005 combined interim income statement of £1=€1.468 in order to assist comparison with the 2005 figures. This commentary should be read in conjunction with the full combined interim accounts*.
The combined interim accounts have been prepared in the context of two uncertainties relating to the validity of the going concern principle and the value of assets as described in note 1, and in according to the accounting principles described in note 2 of the full combined interim accounts*.

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Analysis of result £ million	2005 Actual	2004 Restated[1] & recalculated @	2005/2004 % change[2]	2004 Restated[1]
Exchange rate €/£	**1,468**	**1,468**		**1,496**
Shuttle services	146	138	+6 %	137
Railways	117	116	+0 %	115
Transport activities	**263**	**254**	+3 %	**252**
Non-transport activities	5	9	-42 %	9
Operating revenue	**268**	**263**	+2 %	**261**
Operating costs	(127)	(131)	-3 %	(130)
Operating margin	**141**	**132**	+7 %	**131**
Depreciation and provisions	(56)	(62)		(62)
Trading profit	**85**	**70**	+21 %	**69**
Non-trading charges	(11)	(8)	+40 %	(8)
Operating profit	**74**	**62**	+19 %	**61**
Net interest charges[3]	(161)	(167)	-4 %	(166)
Net loss	**(87)**	**(105)**	-18 %	**(105)**

[1] Prepared on the basis of the accounting principles described in note 2.1 of the interim accounts at 30 June 2005.
[2] Variances are calculated using underlying figures.
[3] Includes net cost of financing and debt service, other financial income and charges and taxation.

Financial restructuring

Eurotunnel has obtained a waiver from its Lenders, valid up to 31 January 2006, which defines the conditions under which the Group can undertake debt restructuring negotiations with its creditors. In particular, the waiver required a proposal of a restructuring plan by no later than 15 July 2005, as well as the establishment of a structured means of communication between Eurotunnel and its creditors. The waiver can be terminated at any time should either party not meet its respective responsibilities. In accordance with the timetable, Eurotunnel presented a business plan during June, and on the 13 July, presented its initial reflections for restructuring its debt to the Ad Hoc Committee which represents the majority of Eurotunnel's creditors.

In order to convert the Stabilisation Advances and Notes into Units in accordance with the provisions of the 1998 restructuring, Eurotunnel has the possibility to propose to its shareholders to vote on the conversion before the end of 2005. The consequences of such a conversion, which are being examined as part of the current debt restructuring, are in the footnote below.

Within the Credit Agreements there is an option available for putting into place of an additional line of credit as described in the 2004 annual accounts. In addition, should an Event of Default occur, the finance agreements also provide, under certain conditions, for a standstill period during which time the negotiation of a restructuring plan can take place whilst enabling the Group to continue to conduct its business normally.

Uncertainties

The Group is subject to two uncertainties: the ability to continue as a going concern and the carrying value at which the Group's assets are recorded in the accounts.

a) Going concern

The going concern basis is dependent on the Group's ability to put in place a refinancing plan or, if not, to obtain an agreement from the Lenders within the existing arrangements in the second half of 2006 at the latest.

The Group believes that the measures described above, which are intended to provide a satisfactory solution to the financing requirements of the Group, can be put in place before the date at which the Group will be unable to meet its financial obligations.

The application of the going concern assumption in the 30 June 2005 interim Combined Accounts has been based on the assumptions described above.

b) Impairment

The operational performance of the Group in the first half of 2005 and the level of interest rates would not require a modification to the value in use of assets. The Group is currently working on a refinancing plan the consequences of which on the level of indebtedness may differ from the underlying assumptions used at 31 December 2004. The Group has not revised its financial projections, which is normally carried out during the second half of the year as a part of the preparation of its medium term plan.

Legal disputes

In the Usage Contract dispute between the Railways and Eurotunnel, the Arbitration Tribunal rendered a third partial award on 4 May 2005. Eurotunnel remains confident in the outcome of these proceedings and has therefore not changed its position from previous years; consequently no provision has been made in these interim Combined Accounts or in the Group's financial projections. The termination of the contract between Eurotunnel and Transferry has resulted in a contractual dispute.

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Latest news

Performance improvement and cost reduction

The maintenance of our shuttle fleet is done in the maintenance zone on the terminal in Coquelles. In this zone are several specially designed buildings, one of which is more than 800 metres long and which can accommodate a whole passenger shuttle. Work started on 6 September on an extension to one of these buildings to improve the facilities available for bogie maintenance (bogies are the undercarriages on trains, to which the axles and wheels are attached). The construction of a shot blasting unit and a paint shop are planned in this building. The new facilities will be brought into service in 2006 and will bring a significant productivity improvement.

Contact Centre team highly rated

Contact Centre Focus, CCF, monitors company call centres in order to identify the best performers against key criteria (quality of welcome, response to enquiry, handling the enquiry, relationship and close of call).You will be pleased to know that we are presently in 6th place on the Contact Centre benchmark study, ahead of First Direct, Barclaycard, Landrover and Talk Talk to name a few. This month we also received a Nomination in the "Best of Breed" section "for classic upselling with charm, surprising and delighting with options."

Website Summer Specials

In line with our goal of giving shareholders an ever more useful information source about Eurotunnel, we have continued to improve and enliven the website throughout the summer. Several new pages are now available for you: a view of the site visits on the day of the AGM, the names of the winners of the 1000 free tickets from the prize draw, the list of awards recently won by the company, a “Test your knowledge of Eurotunnel” quiz, archived reports and presentations... Get online and have a look round now at www.eurotunnel.com

Join the UK Shareholder Committee and contribute to your company’s shareholder communications!

The UK and French shareholder consultative committees consult with and advise the company on its shareholder communications policy. Committee meetings are held three or four times a year, in the presence of the Chairman and members of management. The committees are made up of 9 members in the UK, and 12 members in France. Each member must have held at least 1,000 shares in registered form for a minimum of 3 years and is appointed to the shareholder committee for a 3 year term.

The annual renewal of one third of the members of the UK shareholder committee will take place at the end of 2005. Interested candidates should apply by email to shareholder.info@eurotunnel.com enclosing a cover letter and curriculum vitae, or by post to Eurotunnel Shareholder Information Centre, PO Box 302, Folkestone, Kent CT19 4QZ.

Your questions answered

1. I recently purchased Eurotunnel shares, do I get any perks ?

If you have a minimum of 1,000 shares, held in registered form in one account for 3 months, you may qualify for travel privileges at 30% reduction on 3 return trips with Eurotunnel per year. To apply for this perk, please contact the Shareholder Information Centre by telephone on 08457 697 397 or by email at shareholder.info@eurotunnel.com.

2. When the news is positive, the company communicates willingly, however when the opposite occurs, there is total silence. There was a meeting with the creditors which was cancelled, without much explanation. Please can you respond on this point ?

In accordance with the timetable, Eurotunnel presented a business plan during June, and on 13 July presented its initial reflections for restructuring its debt to the Ad Hoc Committee which represents the majority of Eurotunnel’s creditors. The negotiation process is complex, and we believe that in order for significant progress to be made, the content of the discussions must remain confidential. However, we will inform Eurotunnel’s shareholders as soon as possible on the outcome of these negotiations.

Eurotunnel would like to retain your data in order to keep you informed of the latest company news.
If you would like to amend any of your details at any time, please contact the Shareholder Information Centre, Eurotunnel plc, P.O. Box 302, Folkestone, Kent CT19 4QZ.